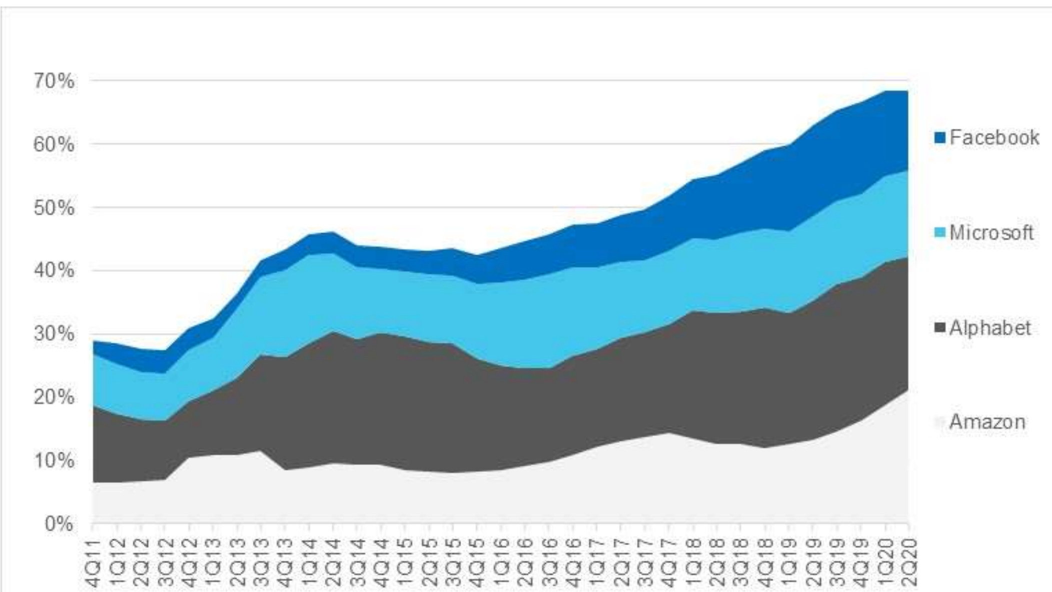
in 2Q20. Many analysts, including this one, wonder why Facebook can't devote a bit more of that massive R&D budget to policing content on its platform. Until it's forced to by legislation or court rulings, however, it will likely remain focused on maximizing ad revenue growth, no matter the social costs. Even widespread employee discontent have not had much effect.

The big get bigger, with implications well beyond data centers and the cloud

Speaking of Facebook, this company is one of four large US-based webscale operators which have come to dominate overall investment in the sector. The other three are Alphabet, Amazon, and Google. Facebook is the only one which does not offer public cloud services. Collectively, these four webscale players accounted for 68% of global WNO capex in both 2Q20 and 1Q20, on an annualized basis. Alphabet and Amazon are tied, with 21% each, followed by Microsoft and Facebook each with about 13% of the global market. A large chunk of Amazon's capex is purely ecommerce-related, supporting the company's fulfillment and logistics footprint. That leaves Alphabet as easily the most significant network spender in the webscale market, as much of its recent capex has focused on the Google Cloud Platform (GCP).

Figure 2 illustrates the share of global annualized capex captured by these four players over time.

Figure 2: Big 4 operators' share of global webscale capex (annualized)



Source: MTN Consulting

Apple is also a big spender, accounting for about 7% of global webscale capex in the 2Q20 annualized period. Like Amazon, though, a big piece of Apple's capex has nothing to do with its data center network. Apple spends heavily on production facilities for its electronics products. The next big spenders to consider are the top two Chinese cloud providers, Alibaba and Tencent, whose 2Q20 annualized capex totaled to roughly 5% each of the global webscale total. These ratios may rise in the next 2-3 years, at least for Tencent. In 2Q20 it pledged $70.6 billion in combined capex/R&D over five years ($14.1 billion per year), a big surge from the 2019 total of $7.6 billion. In May, Tencent announced plans to raise up to $20 billion in new capital via bond issues to cope with this. The recent U.S. restriction on WeChat is not likely to have a direct impact on this expansion. Alibaba also committed publicly in 2Q20 to multi-year cloud spending, but behind the hype the figures were relatively conservative: the $28.2 billion in combined capex/R&D commitment averages out to $9.4B per year, a bit less than the company's actual total in 2019. Tencent is the one to watch.

